

Message Text

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PAGE 01 STATE 192127

16

ORIGIN COME-00

INFO OCT-01 EA-07 ISO-00 EB-07 OMB-01 TRSE-00 AID-05

CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03 NSAE-00 NSC-05

PA-01 PRS-01 SP-02 SS-15 USIA-06 /067 R

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COM/BIC/OED/MEPD/CATKINS

COM/BIC/OED/MEPD/JMSANDS, DIR.

COM/BIC/OIM (INFO)

STATE/EA/IMS/WSHEPHARD

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R 132212Z AUG 75

FM SECSTATE WASHDC

TO AMEMBASSY KUALA LUMPUR

INFO AMEMBASSY SINGAPORE

CONFIDENTIAL STATE 192127

E.O. 11652: GDS

TAGS: BEXP, ID

SUBJECT: KAISER STEEL PROJECT

REF: KUALA LUMPUR 4298

1. KAISER INDICATES THAT DURING THE PAST 18 MONTHS THEY SENT TWO TEAMS TO MALAYSIA TO DISCUSS SUBJECT PROJECT. THEY DID EXPRESS INTEREST AND WERE SERIOUSLY CONSIDERING PARTICIPATING UNTIL FACTORS AROSE WHICH IN THEIR JUDGEMENT MADE PROJECT TO RISKY. AT NO TIME DID THE KAISER TEAMS MAKE ANY COMMITMENTS REGARDING THEIR PARTICIPATION IN THE PROJECT.

2. INITIALLY KAISER CAME INTO PROJECT UNDER THE DIRECTION OF INTERNATIONAL OFFSHORE (IO). HOWEVER WHEN KAISER

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 192127

LEARNED THAT ONE OF THE TWO IO PARTNERS WAS BEING SUED FOR

ILLEGAL PRACTICES KAISER DECIDED TO CONSIDER PROJECT EXCLUSIVELY ON THEIR OWN BEHALF. THE SECOND KAISER TEAM VISITED MALAYSIA IN JANUARY 1975 WITH THE INTENTION OF DISCUSSING PROJECT UNDER THIS NEW ARRANGEMENT.

3. THE SECOND VISIT REVEALED TWO FACTORS WHICH WERE THE PRIMARY REASONS BEHIND KAISER'S DECISION TO WITHDRAW. FIRST, THE GOM FORMED PETRONAS AND IN THE OPINION OF KAISER MANAGEMENT THERE WAS CONSIDERABLE DOUBT WHETHER THEY COULD ACQUIRE AND CONTINUE TO OPERATE WITH A MAJOR EQUITY POSITION IN THE PROJECT. KAISER BELIEVED THERE WAS A GOOD CHANCE THEY MIGHT BE NATIONALIZED. SECOND, KAISER BELIEVED THE MARKET UNCERTAINTIES WERE SUCH THAT VENTURES OVERALL PROFITABILITY WAS DOUBTFUL.

4. WHEN KAISER DECIDED TO WITHDRAW THEY DISCUSSED THIS ACTION WITH FIDA WHO THEY FELT WAS SATISFIED WITH THEIR EXPLANATION.

5. WE WOULD APPRECIATE EMBASSY'S COMMENTS PARTICULARLY IF POST BELIEVES THERE ARE FACTORS WHICH MAY WARRANT KAISER RECONSIDERING THEIR POSITION. KISSINGER

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